

### **SUB-CONTRACT AGREEMENT**

THIS AGREEMENT, made and entered into this 29 day of May, 2001, by and between **American Water Works Service Company, Inc.**, a Delaware corporation (hereinafter "Service Company"), **Illinois-American Water Company**, an Illinois corporation (hereinafter "Illinois-American" or "IAWC"), and **Iowa-American Water Company**, a Delaware corporation (hereinafter "Iowa-American");

### **WITNESSETH:**

WHEREAS, Service Company has previously entered into an agreement with Iowa-American Water Company dated January 1, 1989, pursuant to which Service Company is to provide certain services, including, accounting, administration, communication, corporate secretarial, engineering, financial, human resources, information systems, operation, rates and revenues, risk management, and water quality, together with such other services as Iowa-American Water Company and Service Company may agree (the "Service Agreement"); and

WHEREAS, the Service Agreement allows Service Company, with Iowa-American's consent, to engage another company or person to provide any of such services on behalf of Iowa-American; and

WHEREAS, it has been determined that Illinois-American can provide certain of such services more directly on behalf of Iowa-American at no greater cost than that for which Service Company can provide such services using its own personnel, to the benefit of both Illinois-American and Iowa-American;

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein, the parties hereby agree as follows:

1. Illinois-American shall provide to and on behalf of Iowa-American the following services, as a subcontractor of the Service Company under the Service Agreement:

A. **Administration.** Executive management functions shall be performed for Iowa-American by the executive management of Illinois-American.

B. **Communications.** Illinois-American shall provide communications oversight to Iowa-American to promote satisfactory relations with employees, customers, communities, and the general public and assist in the preparation of communication materials (including press releases, brochures, audio-visual presentations, and speeches), plant tours, public exhibits and displays, and other related services to inform the public.

C. **Corporate Secretarial.** Illinois-American shall maintain, in such places and manner as may be required by applicable law, documents of Iowa-American, such as minute books, charters, by-laws, contracts, deeds, and other corporate records, and shall administer an orderly program of records retention. It shall maintain or arrange for the maintenance of records of stockholders of Iowa-American, prepare or arrange for the preparation of stock certificates, perform duties relating to the transfer of stock, and perform other corporate secretarial functions as required, including preparation of notices of stockholder and director meetings and the minutes thereof. Illinois-American may assist Iowa-American in the preparation of documents and reports required by Iowa-American such as deeds, easements, contracts, charters, franchises, trust indentures, and regulatory reports and filings.

**D.     Engineering.** Illinois-American engineering staff shall advise, and provide engineering services to assist Iowa-American in planning for, operating, maintaining, and constructing its facilities. It shall conduct distribution system surveys and hydraulic analysis and prepare or review maps, charts, operating statistics, reports, and other pertinent data which shall assist Iowa-American in the proper maintenance and protection of Iowa-American properties by periodic inspection of its structures, tanks, reservoirs, dams, wells, and electrical and mechanical equipment.

The engineering services provided by Illinois-American shall also include the conduct of field investigations as necessary to obtain engineering information and, when required, the preparation of studies, reports, designs, drawings, cost estimates, specifications, and contracts for the construction of additions to or improvements of Iowa-American's source of supply, treatment plant, pumping stations, distribution system, and such other facilities as Iowa-American may request. Illinois-American shall provide a Materials Management Program to arrange for the purchase of equipment, materials, and supplies in volume on a basis advantageous to Iowa-American and assist in the evaluation of new and existing products and application procedures.

**E.     Financial.** Illinois-American shall assist in the development and implementation of financing programs for Iowa-American, including the furnishing of advice from time to time on securities market conditions and the form and timing of financing; advise concerning arrangements for the sale of its securities; and assist in the preparation of necessary papers, documents, registration statements, prospectuses, petitions, applications and declarations. It shall prepare reports to be filed with, and reply to inquiries made by, security holders and bond and

mortgage trustees. Illinois-American shall provide assistance to Iowa-American in the preparation of financial reports.

F. **Human Resources.** Illinois-American shall assist in obtaining qualified personnel for Iowa-American and the establishment of appropriate rates of pay for employees. Illinois-American shall also assist in negotiating with bargaining units representing Iowa-American employees. Illinois-American will keep Iowa-American apprised of all employment laws and develop procedures and controls to assure compliance.

G. **Operation.** Illinois-American will assist in the development and implementation of operating procedures to promote the efficient and economic operation of Iowa-American.

H. **Rates and Revenue.** Illinois-American personnel shall make recommendations for changes in the rates, rules, and regulations and shall assist Iowa-American in the conduct of proceedings before, and in its compliance with the rulings of, regulatory bodies having jurisdiction over its operation. These personnel shall keep abreast of economic and regulatory developments and conditions that may affect Iowa-American; and advise Iowa-American of any such developments and conditions to the extent that they may be important to Iowa-American Water Company. Rates and Revenue personnel shall assist in the preparation of rate filings or applications and the supporting documents and exhibits requested or required by Iowa-American and the Iowa Utilities Board. Illinois-American shall also provide qualified personnel to testify on Iowa-American's behalf as required during any regulatory proceedings.

I. Water Quality. Illinois-American shall assist Iowa-American to comply with standards of governmental agencies and establish and attain water quality objectives of Iowa-American. It shall assist in providing design criteria for processes, coordinating with public agencies, developing approaches and solutions to water quality problems, and providing technical assistance and general direction for Iowa-American personnel.

2. In consideration for the services to be rendered by Illinois-American to Service Company on behalf of Iowa-American as hereinabove provided, Service Company shall pay the salaries of the positions designated as Service Company Employees on Exhibit A directly and shall pay to Illinois-American (or shall direct Iowa-American to directly pay to Illinois-American) all other costs incurred on behalf of Iowa-American by Illinois-American, all as determined in this Section 2 and Section 3.

A. The salaries and benefit costs attributable to the individuals listed on Exhibit A attached hereto and incorporated herein by this reference, being the employees formerly employed by Illinois-American who will routinely perform the services set forth above on behalf of Iowa-American, shall be paid directly by Service Company (so that the individuals previously employed by Illinois-American in such positions, and any successors to such individuals or others performing the functions presently performed by such individuals, shall become employees of Service Company); and shall be prorated between Illinois-American and Iowa-American by Service Company. In addition, the salaries and benefit costs of the President and Vice-President/Treasurer of Illinois-American shall be prorated between Illinois-American and Iowa-American. All such costs

shall be prorated on a customer basis. For purposes of the preceding sentence, customers shall be determined as of the end of the immediately preceding calendar year.

**B.** All costs of Illinois-American incurred in connection with services rendered by it to Service Company on behalf of Iowa-American which can be identified and related exclusively to Iowa-American, other than the salaries and overhead charges related to the employees identified in Section A, shall be charged directly to Iowa-American.

**C.** Employees of Illinois-American, other than those specifically identified in Section A, who, from time to time, perform services on behalf of Iowa-American, shall maintain a log of the time expended in performing such services and such time shall be charged directly to Iowa-American, including salaries, wages, and benefits.

3. In determining the cost to be assessed to Iowa-American by Illinois-American for the rendering of services to Iowa-American as herein provided, there shall be added to the cost set forth in Section 2 a charge sufficient to cover the general overhead of Illinois-American's corporate office, as defined below. Such costs shall be calculated by multiplying the total general overhead of Illinois-American's corporate office by a fraction, the numerator of which is the aggregate of the normal hours worked by the employees identified in Section 2(A) and the denominator of which is the aggregate of the normal hours worked by all employees located in Illinois-American's corporate office. For purposes of the preceding, the term "general overhead" shall include:

- a. other general office supplies and other similar expenses; and
- b. facilities charge, including depreciation, utilities, and real estate taxes for the principal office.

4. As soon as practicable after the last day of each month, Illinois-American shall render a bill to Iowa-American for all amounts due to Illinois-American for services and expenses pursuant hereto for such month. Such bill shall be in sufficient detail to show separately the charge for each class of service rendered. All amounts so billed shall be paid by Iowa-American within thirty (30) days after receipt of the bill therefor.

Illinois-American shall, at any time, upon request of Iowa-American, furnish any and all information required by Iowa-American with respect to the services rendered by Illinois-American hereunder, the costs thereof, and the allocation of such costs.

5. Service Company shall not charge Iowa-American Water Company more than the amount charged by Illinois-American for the services performed by Illinois-American hereunder.

6. It is understood and agreed that Service Company may perform any of the services set forth above on behalf of Iowa-American with its own personnel or with another subcontractor, should the cost of such services be less than those to be provided pursuant hereto.

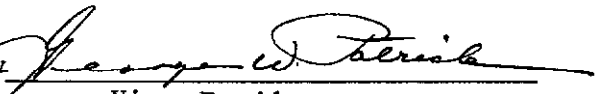
7. This Agreement shall be contingent upon approval of the Illinois Commerce Commission. This Agreement shall be the sole agreement between the parties concerning the subject matter hereof and shall supersede all prior agreements, written or oral. This Agreement shall continue in full force and effect until terminated by any of the parties hereto giving the other parties hereto thirty (30) days' notice in writing; provided, however, that this Agreement shall terminate as of the date Illinois-American, Service Company, or Iowa-American Water Company ceases to be an affiliate of American Water Works Company, Inc.

IN WITNESS WHEREOF, Service Company, Illinois-American, and Iowa-American have caused this Agreement to be signed in their respective corporate names by their respective Presidents or Vice Presidents, and impressed with their respective corporate seals attested by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

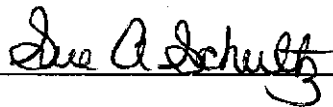
ATTEST:

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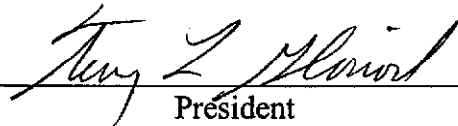
AMERICAN WATER WORKS SERVICE  
COMPANY, INC.

By   
Vice President

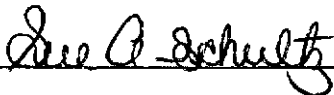
ATTEST:



ILLINOIS-AMERICAN WATER COMPANY

By   
President

ATTEST:



IOWA-AMERICAN WATER COMPANY

By   
President



**EXHIBIT A**

**EMPLOYEES OF SERVICE COMPANY**

1. Vice President of Operations
2. Corporate Counsel
3. Associate Corporate Counsel
4. Executive Secretaries (2)
5. Director of Water Quality
6. Director of Rates & Revenue
7. Financial/Rate Analyst (3)
8. Director - Human Resources
9. Director - Communications